MVS BRIEFS

McKee, Voorhees & Sease, PLC ▪ www.ipmvs.com ▪ 515.288.3667 ▪ June 2013

In This Issue

TRADEMARK PROTECTION AT THE OUTSET

By Christine Lebrón-Dykeman

Trademarks and service marks are among the most valuable assets any business owns which is why it is important to understand how to gain maximum protection at the time you initially file for trademark registration.

One of the most critical—and often one of the most overlooked—aspects of a trademark application is the identification of goods and services. Too often, trademark applicants take insufficient care when describing the goods and services upon which the mark will be used. At best, this results in wasted time and money to correct the identification during the application process, at worst; it results in the abandonment of the trademark application or cancellation of a trademark that has already been registered.

As an initial matter it is important to understand that under the rules of the U.S. Patent and Trademark Office (PTO), trademarks may only be registered on or in connection with specific goods/services. In other words, a trademark owner cannot register a trademark for "everything in the world." Rather, they can only register on specific products or services they actually offer or sell. Consequently, when you are applying to register a trademark at the PTO, the object of any goods and services description is to stay as broad as possible and, at the same, meet the rigid specificity requirements of the PTO. By way of example, the PTO will not allow a broad description such as "clothing," but instead requires that you provide a list of the exact items of clothing to be sold under the mark, e.g., shirts, pants, skirts, etc. This type of problem is typically easily remedied and only results in an extension in the trademark prosecution time table during which time you, or your attorney, will be required to respond to office actions issued by the PTO.

More problematic, however, is when there is confusion as to whether the applicant offers goods <u>or</u> services. One regularly occurring example of this is when a trademark applicant mistakenly provides a definite identification of goods (e.g., "computer programs in the field of accounting") when what they actually offer is a service (e.g., "custom design of computer programs"). Unfortunately, under the trademark rules an applicant <u>may not</u> amend a definite identification of goods to specify services, or vice versa, and thus an application with this type of error would have to be abandoned and the applicant would need to re-file identifying the services it offers.

Most problematic, however, is when there is a true disconnect between the goods and services you actually provide and the ones identified in the application. As indicated above, trademarks may only be registered on or in connection with specific goods/services. And, indeed, a trademark registration may be canceled and rendered invalid if it is proven by a third party that the mark was not used in connection with the goods/services identified in the trademark application. Our firm recently had a case involving this precise issue. The plaintiff in the case relied on a trademark registration wherein the identified services were "television broadcasting services." We represented the defendant and argued based on evidence in the case that the plaintiff in fact had never engaged in "television broadcasting services," but instead at most provided entertainment services in the nature of television production. In reviewing the evidence and the applicable case law the Court agreed, found that at the time he applied to register the mark, the plaintiff did not use the mark in connection with "television broadcasting services" and cancelled the registration. While this was a great result for our client, it was also a concrete reminder of the importance of taking care in drafting the goods and services identification in any trademark application!

MVS WINS TRADEMARK SUIT FOR FOX TV

In a decision dated January 23, 2013, the U.S. District Court for the Northern District of Iowa granted summary judgment of non-infringement to Fox Television Studios, Inc., whom McKee Voorhees & Sease represented as defendants. The suit was filed in December, 2011, by Louis Scorpiniti, who asserted trademark infringement of his registered mark "The Gate" for television broadcasting, with a first use date of 2007, by Fox's use of the name "The Gates" for their 2010 TV show which aired on ABC. The Court ruled that Mr. Scorpiniti did not have trademark rights in "The Gate," that there was no likelihood of confusion with "The Gates," and canceled Scopiniti's trademark registration 3,536,556.

ICANN'S NEW gTLD TRADEMARK CLEARINGHOUSE— YET ANOTHER WAY TO PROTECT AGAINST CYBERSQUATTING

By Christine Lebrón-Dykeman

In January 2012, ICANN launched a process to create an unlimited number of new generic Top Level Domains (gTLDs). Currently there are 22 gTLDs – the best known of course are .com, .net and .org, but over the past decade many others have been added including, e.g., .biz, .info, and .xxx. However, with the new process, the number of gTLDs is likely to explode! Already since this was instituted in January, over 1,900 applications have been received for over 1,400 strings (for a full list of the proposed new gTLDs, see http://newgtlds.icann.org/en/program-status/application-results/strings-1200utc-13jun12-en). Results have been published for the first 30, and all that have completed the initial evaluation stage so far have passed which indicated that the criteria for applications is minimal and we can expect an absolute explosion in the number and variety of gTLDs (from .adult to .education to .builder) in the very near future.

To offset the high potential of resulting cybersquatting, on March 26, 2013, ICANN launched its Trademark Clearinghouse—a service whereby the owner of a trademark registered with the United States Patent and Trademark Office (or the registry of any country) can register its mark. All "validated" marks will be maintained in a central database.

Registering your mark with the Trademark Clearinghouse offers several benefits, inclusive of the following:

1. If someone tries to register a domain name that exactly matches your trademark, they will get a notice informing them of your rights .
2. If they still go ahead and register, you will be informed, and if you end up in a domain name dispute with the registrant, the notice will be good evidence that they were aware of your rights prior to registering the domain name.
3. Before any new gTLD opens its doors to general registration, they are required to give notice to all trademark holders in the Clearinghouse, and you are thus allowed a short period of time, the Sunrise Period (which typically lasts 30 days), the first opportunity to reserve domains exactly matching your trademark with the new gTLD.

Of course there are also several limitations, inclusive of the following:

1. Cost— the official fees are published in full on the Clearinghouse website, but by way of example, for a single trademark, the Clearinghouse fees are $145 per year, $435 for three years and $725 for five years. Thus, if you own a large number of registered marks the costs could become substantial.
2. Registration doesn't automatically prevent someone registering your exact mark—it just provides them notice of your rights. You still have to use the normal domain name dispute channels to stop the usage.
3. Because registration doesn't cover similar domains, only exact matches, you will not be notified of anyone trying to register a common misspelling of your mark or descriptive term, which are the types of marks often targeted by cybersquatters.
4. Even though you are given notice of the new gTLD during the Sunrise Period, it does not guarantee that you will be able to register your domain under the new domain because there may be other legitimate trademark owners from the U.S. or another country that own your very same mark (consider, e.g., Delta for airlines and Delta for dental services). In such instance, it is expected that the domain operators will hold auctions to decide who will own the domain, thus increasing the cost of that new domain name.

In short, while this process is not ideal, trademark owners who are concerned about cybersquatting and/or who want to know as soon as a new gTLD opens up, may ultimately find the Clearinghouse to be a valuable tool that will afford them an early opportunity to intercede in the registration of infringing or confusing domain names. Of course, trademark owners who choose not to record their marks with the Clearinghouse will still be able to police their brands and avail themselves of the traditional dispute avenues.

If you are interested in pursuing registration in the Clearinghouse we would recommend doing so sooner rather than later since new gTLDs will be released soon.

THE FIRST SALE DOCTRINE RE-EMERGES IN THE TWENTY-FIRST CENTURY

By Daniel M. Lorentzen

Statutory copyright law protects the owner of a copyrighted work from unauthorized reproduction, derivation, distribution (by sale, rental, lease or lending), public performance, public display, or transmission, and provides legal remedies to the owner for infringement. The distribution right, however, is subject to an important limitation: the "first sale doctrine," also referred to as exhaustion. The first sale doctrine has its basis in property law, and the common law right to free disposition of personal property. In the 1908 case *Bobbs-Merrill Company v. Straus*, the U.S. Supreme Court first articulated the doctrine as a judicial compromise between copyright law and the well-entrenched common law of property. Congress codified the doctrine as section 109 of the Copyright Act.

Since it was first established more than a century ago, the first sale doctrine has faced a number of important tests, generally corresponding to advances in technology and distribution systems. Recently, the doctrine has faced a thoroughly modern test: the globalization of production and transportation.

KIRTSAENG V. JOHN WILEY & SONS, INC.: THE GLOBAL LIMITS OF COPYRIGHTS

In *Kirtsaeng v. John Wiley & Sons, Inc.*, the Supreme Court answered the much-debated question of whether the first sale doctrine applies to copyrighted works manufactured in other countries. The copyright act guarantees rights for copyright owners, qualified by the exceptions set out in sections 107 through 122, including the first sale doctrine. In addition, foreign-printed pirated copies are subject to the Copyright Act, and under Supreme Court precedent in *Quality King Distributors, Inc. v. L'anza Research Int'l, Inc.*, an authorized copy produced in the U.S. could be purchased abroad and resold in the U.S. The question remained, however, of whether a foreign-manufactured copy could be imported and sold under the first sale doctrine.

The test of this issue arose when Supap Kirtsaeng set up a side business while studying in the U.S. His business consisted of friends and family purchasing foreign edition English-language textbooks in Thai book shops and mailing them to Kirtsaeng in the U.S., where Kirtsaeng would resell them on eBay, reimburse his family and friends, and keep the profit. One of the publishers, John Wiley & Sons sued in the U.S. District Court for the Southern District of New York, alleging that selling the foreign textbooks in the United States infringed its U.S. copyrights on its American editions.

The books at issue were printed by a wholly-owned subsidiary of Wiley, Wiley Asia, and were marked with a legend designating them for sale only in Europe, Asia, Africa, and the

Middle East. At trial, Kirtsaeng attempted to argue that the first sale doctrine precluded liability, but was denied the ability to raise the defense by the district court judge. At the end of the trial, the jury found that Kirtsaeng was liable for willful copyright infringement for eight works, and awarded $75,000 in damages for each work.

Kirtsaeng appealed the jury's verdict to the Second Circuit Court of Appeals. The Second Circuit agreed with the district court that Kirtsaeng was precluded from raising the first sale doctrine because the books at issue were manufactured outside the United States. The appellate court based its decision on the language of the 1976 Copyright Act and the Supreme Court's decision in *Quality King*. Kirtsaeng appealed the Second Circuit's decision to the Supreme Court, arguing that the Second Circuit misapplied *Quality King* and erroneously inserted a geographical limitation into the first sale doctrine.

In reviewing the Second Circuit's decision, the Supreme Court extended its holding in *Quality King* to specifically apply the first sale doctrine to copyrighted works both manufactured in the U.S. and abroad. The Court's decision focused mainly on the correct statutory interpretation of § 109(a) of the 1976 Act. In particular, the Court declined to interpret the phrase "lawfully made under this title" to constitute a geographic restriction on the first sale doctrine. Instead, the Court interpreted the "lawfully under this title" language to mean "in accordance with" or "in compliance with" the Copyright Act.

The Court also looked to the common law to solidify what it held to be the proper statutory interpretation of § 109(a). "The 'first sale' doctrine is a common-law doctrine with an impeccable historic pedigree . . . [and] makes no geographical distinctions [in the application of the 'first sale' doctrine." The Court drew on the conclusion reached in *Bobbs-Merrill*, wherein the Court stated "that the copyright laws were not intended to create a right which would permit the holder of the copyright to fasten, by notice in a book . . . a restriction upon the subsequent alienation of the subject-matter of copyright after the owner had parted with the title to one who had acquired full dominion over it."

The Court's decision in *Kirtsaeng* settled the question whether the first sale doctrine applies in the context foreign-manufactured copyrighted works. This decision helps to clarify how the doctrine operates within the context of modern, global production and transportation systems.

WHAT'S THE PRICE?

By R. Scott Johnson

Often, either as a result of business negotiations or a settlement of litigation, you may want to license or sell your patent rights to someone else. First, you need to try and understand what your patent is worth. Generally, there are at least three ways to value the patent or intellectual property asset you are now trying to license or sell – 1) the market approach; 2) the cost approach; and 3) the income approach.

The market approach is based on the economic principle of supply and demand. It tends to focus on the examination of comparable transactions and is best used when the technology at issue is actively traded. The first step in any market-based approach is to see what comparable transactions you can find. Look at various resources, such as SEC filings, www.royaltysource.com, or your own prior licenses of similar technology. Next, evaluate the elements of the past deals and compare the new deal for similarities and differences. It's best if you look at several similar transactions to determine what aspects appear to affect the valuation the most. From these past deals and your knowledge of the current market conditions, you can get a rough idea of the basic value of your new intellectual property asset.

When there is very little previous activity to measure and the main barrier to entry for someone else is the time and cost of development, the cost approach may be used. The cost approach looks at the research and development costs you have already incurred and the time it took to perform these tasks. This includes looking at all of the personnel involved, the time spent and the costs of obtaining any intellectual property protection. It should also examine the technology's obsolescence time. Essentially, it asks what it would cost to replace your technology with something that worked equally well either through replacement or reproduction.

When the technology is relatively new and you anticipate a potential for large future cash flows by employing the new intellectual property asset, you may want to look at the income approach. The income approach attempts to look at the present value of the future income stream, how long that stream could last and the risks associated with achieving that future income. It examines the incremental competitive advantage of the technology – what is its value over the prior technology? It attempts to forecast the investment requirements over time, forecast the future incremental profits over time and discounts the future cash flow to its present value. It should also look to determine how much of the future profit is attributable to the intellectual property asset.

Courts frequently use valuation techniques that combine elements of the market and income approaches. For example, in a patent infringement context, the relief that the intellectual property owner is afforded by not having to make royalty payments helps to determine the intellectual property's value. Thus, damages to the patent owner should be no less than this reasonable royalty. The courts typically look at the following fifteen factors to determine a reasonable royalty:

1. The royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty (market approach);
2. The rates paid by the licensee for the use of other patents comparable to the patent in suit (market approach);
3. The nature and scope of the license, i.e. exclusive or non-exclusive (market approach);
4. The licensor's established policy and marketing programs to either not license others and maintain the monopoly or grant licenses under special conditions (market approach);
5. The commercial relationship between the licensor and the licensee (market approach);
6. The effect of selling the patented item in promoting sales of other products and the extent of such derivative sales (income approach);
7. The duration of the patent and the term of any license;
8. The established profitability of the product made under the patent, its commercial success and current popularity (income approach);
9. The utility and advantages of the patented invention over older models or devices (income approach);
10. The nature of the patented invention, the benefits to those who have used it (income approach);
11. The extent to which the infringer has made use of the invention (income approach);
12. The portion of the profit that allows for the use of the invention (income approach);
13. The portion of the realizable profit that is credited to the invention versus non-patented elements, the manufacturing process, business risks or significant features or improvements added by the infringer (income approach);

continued...

14. The opinions of qualified experts;
15. The amount that a reasonable licensee would have been willing to pay as a royalty at the time infringement began and yet be able to make a reasonable profit which still would be acceptable to a reasonable licensor.

These are known as the *Georgia-Pacific* factors based on the holding in *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F.Supp. 1116, 6 USPQ 235 (SDNY 1970).

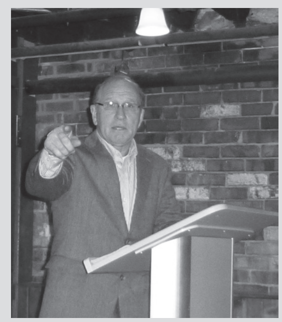
Recently, another court modified these factors somewhat when the technology at issue had been incorporated into an industry standard. If the company that owns the intellectual property participated in the body that set the standard, typically, that company will then be required to license its patent essential to the standard on "reasonable and non-discriminatory" or RAND terms.

In *Microsoft v. Motorola*, Judge James Robart in the Western District of Washington recently modified the traditional *Georgia-Pacific* factors to account for a RAND situation. The Judge noted that others had patents associated with the same standard and thus royalty demands by multiple patent holders must be accounted for. This is typically known as royalty stacking - a problem that threatens to result in significant and unsupportable royalty burdens on standardized products. He also noted the royalty associated with the technology should be commensurate with the actual value that the technology adds to the overall standard and any product in which it is implemented. The end result was that Motorola's damages demand of approximately $400 million per year was cut to just $1.8 million per year. Quite a difference in valuations!

When you get ready to license or sell your intellectual property asset, consider all of the approaches available, how your technology affects the industry, your business, your competitors and any standards you helped put in place. Look for the best fit and make the best business deal or settlement arrangement you can. We're here to help.

COACH GABLE ADDRESSES MVS TEAM

Olympic gold medalist and wrestling legend Dan Gable gave an inspirational speech to MVS attorneys and staff on April 17. Coach Gable discussed topics such as being prepared, building performance, being mentally tough, and working smarter. Coach Gable provided numerous gems of wisdom based on his own life experiences as a wrestler and coach.



WE'RE THERE

April 8

Scott Johnson gave a webinar presentation on Defending Your Trademarks in the Brave New World of gTLDs for the Iowa State Bar Association.

May 4-8

Bruce McKee and Mark Hansing attended the 135th Annual Meeting of the International Trademark Association (INTA) in Dallas, TX.

June 20-22

Kirk Hartung and Kyle Coleman will attend the LEGUS annual meeting in Toronto, Canada.

July 17-19

Heidi Nebel will attend the Association of Technology Managers (AUTM) Central Region Meeting in Indianapolis, IN where Heidi will be a speaker and the firm is a sponsor.

August 5

MVS is sponsoring a hole at the St. Jude Children's Hospital Golf tournament held at Glen Oaks Country Club.

September 8-12

Jonathan Kennedy, Scott Johnson and Dan Lorentzen will speak at the Chemistry in Motion Fall meeting of the American Chemical Society in Indianapolis, IN.

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